

May 15, 2006 – Agenda Item 5c
Update on Investments in Companies Doing Business in Sudan

Attachment 2
February 14, 2006, Agenda Item 6d

Part A

February 14, 2006, Agenda Item 6d Cover Memo

Attachment 1	November 2005	Summaries of CalPERS staff meetings with ABB, Alcatel, Royal Dutch Shell, Siemens, and Total
Attachment 2	June 3, 2005	Letter to Federal Agencies from Public Pension Funds in the United States



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February 14, 2006

AGENDA ITEM 6d

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Update on Investments in Companies Doing Business in the Sudan
- II. PROGRAM:** Global Equity
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Executive Summary

This agenda item provides an update on staff's progress to identify and engage portfolio companies doing business in Sudan. Staff remains committed to addressing the very serious and challenging situation in Sudan.

Staff continues to carry out the Investment Committee's constructive engagement plan through company and federal engagement, OFAC monitoring, and commitment to identify new and reliable sources to identify and engage companies doing business in Sudan.

Staff has received responses to the letters the Investment Committee directed staff to write. Four companies (ABB, Alcatel, Royal Dutch Shell, and Siemens) are currently doing business in Sudan. Of the three companies that CalPERS requested cease business activities in Sudan, all three stated they intend to remain in Sudan and strongly assert they are a force for good. Staff has identified "Next Steps" on Page 11 as part of CalPERS commitment to continue an aggressive and constructive engagement plan.

Background

Over the last several years, ethnic and racial tension in the Sudan has escalated to the level the U.S. Department of State characterizes as “genocide.” In recent months, it has been suggested that companies that do business in Sudan may thereby be furthering or condoning the nation’s support for terrorism or the egregious human rights violations occurring in that country. A company associated with the atrocities taking place in Sudan poses a serious risk to creating sustainable and responsible long-term value. Any such company runs myriad risks including but not limited to federal and international sanctions, substantial fines and penalties imposed by authorities, an impairment of their ability to raise capital in public markets as well as long term reputational damage.

CalPERS Constructive Engagement

Staff continues to carry out the Investment Committee direction to implement an aggressive and constructive engagement plan with companies doing business in Sudan. Investment Committee direction provided at the September and December 2005 meetings is as follows:

- Engage portfolio companies that are reported to be engaged in business activities that support genocide and human suffering in Sudan;
- Engage Federal authorities that can provide guidance in this area;
- Engage companies against which the Office of Foreign Asset Control (OFAC) has levied penalties for violating federal sanction programs specific to activities in Sudan.
- Seek new and reliable sources to identify companies engaged in non-humanitarian activities in Sudan and to support CalPERS’ constructive engagement with those companies.
- Report on a periodic basis to the Investment Committee on companies identified by staff as contributing in any way to the perpetuation of genocide and human suffering in the Sudan.

To support the Investment Committee direction, staff developed an extensive framework to support the constructive engagement plan. Over the past 18 months, staff has taken the following steps to support the aggressive engagement of companies reported as having business operations in Sudan:

- Engaged 46 external investment managers and 1,869 portfolio companies in an effort to identify companies that may be operating in Sudan.
- Built a coalition with four other public pension plans to establish an engagement process with companies doing business in Sudan.
- Identified, through the coalition with four other public pension plans, five companies to engage (ABB, Alcatel, Royal Dutch Shell, Siemens, and Total).

- Met with four of the five companies and participated in a conference call with the fifth to understand their business strategy and operations in Sudan as well as to ascertain whether the portfolio companies engaged in business activities with parties that support genocide in Sudan. Meeting summaries can be found in Attachment 1.

In addition to company engagement, Staff researched and explored several third party sources (ISS, KLD, and BGI) that could potentially identify the appropriate companies doing business in Sudan. While none of the sources proved satisfactory for a variety of reasons, staff did find the relationship with Oxford Analytica to be very constructive and detailed. Oxford Analytica's conclusion is that each foreign company doing business in Sudan needs to be considered on a case-by-case basis.

After extensive discussions with other public pension fund representatives and associations, CalPERS' staff concluded that the United States government is the only appropriate entity to identify a comprehensive list of companies that do business in Sudan. It is the one credible centralized source with the capability of understanding national security and human rights implications of company operations and directing appropriate prohibitions and sanctions against these companies. Therefore, staff took the following actions to engage the federal authorities:

- Built a second coalition of 50 pension funds to engage the U.S. Department of Commerce, U.S. Department of State, U.S. Department of the Treasury, and the U.S. Securities and Exchange Commission (Attachment 2). The U.S. Department of Commerce and U.S. Department of State provided written responses which can be found in Attachment 3.
- Staff continued with its efforts to engage the U.S. Department of the Treasury and U.S. Securities and Exchange Commission (Attachment 4) and received a response dated December 21, 2005 from the U.S. Securities and Exchange Commission (Attachment 5).

Staff continues to monitor OFAC for companies against whom OFAC has levied penalties for violating federal sanction programs specific to activities in Sudan.

Responses to CalPERS Letters

Following the Investment Committee direction received on December 12, 2005, staff wrote to the Chief Executive Officers for ABB, Alcatel, Royal Dutch Shell, Siemens, and Total (Attachment 6) communicating the Investment Committee's desires regarding the companies' activities in Sudan. Specifically, the Investment Committee directed staff to demand ABB, Alcatel, and Siemens cease their operations in Sudan, ask Royal Dutch Shell if any of the fuel sold at

its 42 service stations located in Sudan is going to the military or the government, and ask Total to update staff of any changes in its status of having no current operations in Sudan. ABB, Alcatel, Royal Dutch Shell, and Siemens have provided written responses to CalPERS' letters.

ABB Ltd

ABB responded (Attachment 7) that it has no intention of ceasing business activities in Sudan. The company firmly believes it is a force for good in Sudan. ABB also contends their decision to stay in Sudan is supported by NGOs, government officials, diplomats, and other international organizations and international companies with whom they are involved in wide-ranging stakeholder dialogue on Sudan. Further, ABB states that these organizations believe that if ABB were to cease business activities, it would undermine the positive steps that have been taken in Sudan over the past year. ABB states they have consulted Amnesty International and an international human rights expert on their position. The company also continues to be an active participant in international initiatives such as the Business Leaders Initiative on Human Rights (BLIHR) and the UN Global Compact. ABB firmly believes that constructive engagement and support is the right path to help the people of Sudan.

Siemens

In Siemens response (Attachment 8), the company expressed disappointment over the Investment Committee's demand to cease operations in Sudan and stated that, for the reasons previously communicated to staff, the company is unable to do so. Siemens believes that the company's activities in Sudan are conducted in full compliance with U.S. guidelines and various international norms. Further, the company is convinced that "part of the resolution of the situation in Sudan has to include the economic development of the country."

Siemens referenced the dilemma it would face if it withdrew from Sudan regarding its Sudanese employees and the possible legal ramification or unfavorable press if it did so because of CalPERS' demand. Siemens also referenced a provision of the German Stock Corporation Law through which other shareowners may demand the company remain in Sudan and threaten legal action should Siemens concede to CalPERS' demands. They closed the letter by stating that Siemens takes its corporate responsibility very seriously and aspires to be a good corporate citizen in all countries in which they operate.

Alcatel

Alcatel responded (Attachment 9) that ceasing operations in Sudan would not be in the best interest of the people in Sudan. Alcatel feels strongly that they are

promoting human rights through its delivery of a communications network enabling the people to be heard and communicate the tragedy in Darfur to others. The company stated that it is in no way “invested” in helping the government and that Alcatel’s engagement policy, ethics policy, statement on business practices and membership to the UN Global Compact reflect its commitment to support and respect the protection of internationally proclaimed human rights. Mr. Serge Tchuruk, CEO, reaffirmed his intent to work together with CalPERS on this issue.

Royal Dutch Shell

Royal Dutch Shell confirmed in its letter (Attachment 10) that in 2005 none of Shell Sudan’s sales volume sold through Shell operated service stations were sold to the government of Sudan. However, the company did disclose that in 2005 Shell sold a very small and immaterial amount (<4% of total volumes sold in Sudan) directly to the government of Sudan. Royal Dutch Shell also stated that it divested its Aviation business in Sudan on August 1, 2005 and has not been refueling military aircraft in Sudan for several years due to the company’s concerns that some actions of the Sudanese air force were not in line with its commitment on human rights.

New Information

Over the last two months staff has researched and engaged the Business Leaders Initiative on Human Rights (BLIHR) and the Collaborative Development Action (CDA) to learn more about their constructive role with companies doing business in Sudan. In addition, staff has begun the process of exploring both the UN Global Compact and the World Bank.

Business Leaders Initiative on Human Rights (BLIHR)

The objective of this initiative is to develop universal benchmarks that measure a company’s human rights performance. BLIHR is a three-year program and was founded in May 2003 by seven companies¹ including ABB. During 2004, an additional three companies² joined the initiative. BLIHR is supported by its honorary Chair, Mary Robinson who is the former President of Ireland and former UN High Commissioner for Human Rights. BLIHR is working on a global human rights initiative based on the United Nations Draft-Norms on Human Rights (Attachment 11). The principles guiding this initiative are based on corporate complicity. Corporate complicity can exist in direct, beneficial or silent form. The first public report describing its findings is scheduled for release in April 2006.

¹ The seven companies include ABB Ltd, Barclays plc, MTV Networks Europe, National Grid plc, Novartis Foundation for Sustainable Development, Novo Nordisk and The Body Shop International plc.

² The three companies include Hewlett-Packard Company, Statoil and Gap Inc.

Staff contacted the BLIHR regarding ABB's human rights activities in Sudan. ABB is taking steps to determine its measure of complicity in Sudan in accordance with the United Nations Draft-Norms on Human Rights. The management at ABB has committed to BLIHR to report their findings publicly as soon as possible. ABB is taking the lead in Africa to use the United Nations Draft-Norms on Human Rights as its guiding principles to evaluate the company's human rights activities on the continent, including Sudan. The company is approaching this through the evaluation of its rural electrification operations in Africa. ABB is providing a roadmap for BLIHR that could provide guidance for the establishment of human rights codes used in the selection of project contractors. ABB believes their rural electrification operations play a role in the advancement of human rights in Africa given the positive impact electrification has on improving living standards for health, education and housing.

Collaborative Development Action (CDA)

CDA was formed in 1985 and is based in Cambridge, Massachusetts. It is an independent, non-profit organization committed to improving the effectiveness of international parties that provide humanitarian assistance, engage in peace practice, and are involved in supporting sustainable development. CDA works with governments, international organizations, United Nations agencies, the World Bank, NGOs, and universities and training centers, and it is financed mostly by governments and financial institutions.

CDA focuses on the role of multinational corporations, international governments, public aid, and NGOs in countries where there are social and political tensions or conflicts. CDA initiated the Corporate Engagement Project (CEP) with the support of several governments and companies to help multinational corporations better understand their activities in conflict-torn countries. CDA has conducted field visits in Sudan and staff is exploring the viability of having CDA conduct due-diligence in Sudan on our behalf.

The United Nations Global Compact

The UN Global Compact (Attachment 12) is a voluntary, international initiative developed by Secretary-General Kofi Annan that brings companies together with UN agencies, labor and civil society to support universal environmental and social principles. Through the power of collective action, the Global Compact seeks to promote responsible corporate citizenship so that business can be part of the solution to the challenges of globalization.

The Global Compact involves all the relevant participants: governments, who defined the principles upon which the initiative is based; companies, whose actions it seeks to influence; labor, in whose hands the concrete process of

global production takes place; civil society organizations, representing the wider community of stakeholders; and the UN, the world's only truly global political forum, as an authoritative convener and facilitator.

The participants work to advance ten universal principles in the areas of human rights, labor, the environment, and anti-corruption. ABB, Alcatel, Royal Dutch Shell, Siemens, and Total have all expressed support for the Global Compact and its principles. With regard to the two human rights principles, each company has committed to support and respect the protection of internationally proclaimed human rights and to make sure that they are not complicit in human rights abuses.

Participants of the Global Compact are strongly encouraged to communicate their efforts on implementing the principles annually to stakeholders through existing communications such as annual reports or sustainability reports. The Global Compact states that the report should include the following three elements: Statement of continued support from the company's CEO, Chairman or other senior executive; Description of the actions taken to implement the ten principles during the previous fiscal year; and Measurement of outcomes or expected outcomes.

The Global Compact also publishes reports on various issues such as Conflict Prevention and Human Rights to assist all relevant participants. For example, "Enabling Economies of Peace, Public Policy for Conflict-Sensitive Business" identifies a range of concrete actions that governments and the international organizations can undertake to better assist private-sector efforts to promote effective conflict-sensitive business practices, and "Embedding Human Rights in Business Practice" explores the application of the Global Compact's human rights principles.

The World Bank

The World Bank is currently undertaking efforts to jumpstart Sudan's economic development and reconstruction in the region. The World Bank is made up of two unique development institutions owned by 184 member countries – the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). Each institution plays a different but supportive role in its mission of global poverty reduction and the improvement of living standards. The IBRD focuses on middle income and creditworthy poor countries, while IDA focuses on the poorest countries in the world. Together IBRD and IDA provide low-interest loans, interest-free credit and grants to developing countries for education, health, infrastructure, communications and many other purposes.

The World Bank recently signed an agreement with the south Sudan Government to fund development projects in that region. This is in addition to an agreement in November 2005 for purchasing medicines and school materials as well as another agreement in December to implement rehabilitation programs in Juba City that includes buildings, water, sewage system, roads and highways. The World Bank is also reported to be currently developing an economic policy for southern Sudan that is expected to help potential investors. The policy will include a framework that will address issues such as the review of the banking laws, company registration and the empowerment of southern Sudanese entrepreneurs.

Updates

Federal Engagement

Staff has continued efforts to engage federal authorities. To date, none of the federal authorities have provided guidance on Sudan. Of the four federal authorities to which staff wrote letters, only three have provided a response. As previously mentioned, the U.S. Department of Commerce and U.S. Department of State both responded in a relatively timely manner but did not offer any guidance on the matter. In addition to a written response, staff along with six other stakeholders met with senior staff at the U.S. Department of State on January 18, 2006 but were not given any guidance on the matter.

Staff recently received written correspondence from the Securities and Exchange Commission indicating that it does not have the necessary resources or authority to identify whether companies' contacts with terrorist sponsoring states are contrary to U.S. Foreign policy and humanitarian goals. No response has been received to the two letters written to the U.S. Department of the Treasury seeking input and guidance on the Sudan Initiative.

Non Government Organizations (NGOs)

Staff has made numerous attempts to contact various NGOs such as Amnesty International, CARE and Save the Children to both receive their feedback on whether they support the companies position that it is beneficial to the Sudanese people for the companies to remain in the country and to confirm where appropriate their communications with the companies. To date, staff has not received responses from the NGOs but remains diligent in their efforts to contact them.

Office of Foreign Asset Control (OFAC)

Staff continues to monitor the U.S. Department of the Treasury's OFAC for companies against whom OFAC has levied penalties for violating federal sanction programs specific to activities in Sudan. Since staff's last update to the Investment Committee in December 2005, OFAC has not levied any penalties against any of CalPERS' portfolio companies for violations of the federal sanction program for Sudan.

Staff's will submit letters of inquiry to companies against which OFAC has levied penalties for violating federal sanction programs specific to activities in Sudan. Our letter of inquiry will focus on what measures, if any, a penalized company has taken to prevent business activities from being performed in Sudan other than what is permitted under the OFAC sanctions program.

The Regents of the University of California

On January 19, 2006, The Regents of the University of California (Regents) voted unanimously to notify its external fund managers of the Regents' concern regarding assets invested in companies that are engaged in business relationships with the Sudanese government. In addition, the Regents created a taskforce, which will include UC officials and student representatives, to establish criteria for divestment and, using the criteria, identify companies for possible divestment. The taskforce is to also address the legal and financial implications of divestment on the University. It is anticipated that the Regents will vote on whether or not to divest at its meeting on March 15-16, 2006.

The California State Retirement System (CalSTRS)

At CalSTRS' Investment Committee meeting on February 2, 2006, CalSTRS staff provided its current policies to facilitate a discussion regarding how the policies relate to the issues surrounding Sudan as well as an update on their continued engagement with companies doing business in Sudan.

After a lengthy discussion, the CalSTRS Investment Committee voted against a motion to divest from PetroChina in addition to a motion having CalSTRS staff conduct further investment analysis on those companies doing business in Sudan for possible divestment. The CalSTRS Investment Committee determined that the discussion should first focus on the adequacy of existing policies. Therefore, CalSTRS staff was directed to conduct a review of their policies to determine if they adequately address social issues and if any inconsistencies exist that need to be resolved.

Meeting with California State Senator Kevin Murray

Staff met with Senator Murray on December 14, 2005 to discuss CalPERS actions regarding Sudan among other issues. Staff provided Senator Murray with an update on the agenda item presented at the December 12, 2006 Investment Committee meeting and the subsequent direction given to staff by the Investment Committee.

Council of Institutional Investors (CII)

A breakout session at the CII meeting in March has been agendized and entitled "Fiduciary Duties, Divestment, and Other Issues." CII staff expects the issues related to Sudan to be a case study for discussion.

Next Steps

Staff remains committed to the constructive engagement plan outlined by the Committee. As part of this ongoing effort, staff believes that there are still constructive paths to pursue. A number of new initiatives are listed below and involve potentially engaging both BLIHR and CDA as well as using the Corporate Governance Resource Pool to identify a third party consultant to engage the European companies. A comprehensive plan includes the following:

- Continue to actively engage portfolio companies that are reported to be engaged in business activities that support genocide and human suffering in Sudan;
 - Explore the possibility of working with BLIHR, CDA, and the World Bank.
 - Explore opportunities to use the UN Global Compact as a basis for engagement.
- Engage companies against which OFAC has levied penalties for violating federal sanction programs specific to activities in Sudan.
- Continue to seek new and reliable sources to identify and engage companies doing business in Sudan. Options currently being explored include the following:
 - Identify a third party European consultant, who has the expertise to effectively engage these European companies.
 - Explore opportunities to utilize CalPERS Corporate Governance Resource Pool to either identify global third party sources or engage companies with business operations in Sudan.
- Continue to work with the public plan coalition and to collaborate where appropriate.

Consistent with Investment Committee direction, staff will report back on a periodic basis.

V. STRATEGIC PLAN:

This item is not a product of either the 2005-2006 Strategic or Annual Plans.

VI. RESULTS/COSTS:

Over the course of last year, the primary cost to the Fund for this initiative has been significant staff time.

Dennis A. Johnson
Senior Portfolio Manager
Corporate Governance

Christianna Wood
Senior Investment Officer
Global Equity

Anne Stausboll
Interim Chief Investment Officer



Memorandum

California Public Employees' Retirement System

Date: November 30, 2005

From: Christy Wood,
Senior Investment Officer, Global Equity

Subject: October 13, 2005 Meeting with ABB - Sudan Activities
(The following summarizes remarks made by representatives of ABB.)

Investor Attendees:

Bill Atwood – Executive Director Illinois
Mark Anson – Chief Investment Officer, CalPERS
Christy Wood – Senior Investment Officer, CalPERS
Don Kirshbaum – Investment Officer-Policy, Connecticut
Treasurer's Office
Susan Sweeny – Chief Investment Officer, Connecticut
Treasurer's Office
Shelagh McClure – Compliance Officer, Connecticut
Treasurer's Office
Julie Gresham – Assistant Comptroller, New York State
Comptroller's Office

ABB Attendees:

Gary Steel – Vice President, Member of the Group Executive
Committee
Ron Popper – ABB Group Corporate Communications, Corporate
Social Responsibility
Bruce Talley – Public Affairs, ABB Washington
Anders Nordstrom – ABB Sustainability Affairs, Africa
Specialists
John Chironna – Head of ABB Investor Relations, US
Trina Foster – Head of ABB Corporate Communications, US
Professor Alan Miller – Non-ABB, independent Advisor,
Director McGrigor Rights (International Human Rights
Consultancy)

Overview of Business Activities

ABB provided an overview of ABB's philosophy pertaining to its business in Sudan. They believe they are a force for good and a company that is "human rights aware." They believe things are improving in Sudan and that it is not the time to withdraw. ABB provides electricity in Sudan which is directly correlated to improvement in standards of education and health care.

ABB's work in Sudan is limited to power transmission from a dam at Merowe to Khartoum, Port Sudan and a resort on the Nile. They also sell flow control systems in the Heglig oil field in the south of the country. They also sell low-voltage products through distributors. Currently ABB has only one employee on the ground in Sudan. They have no capital invested in the Sudan. On the Merowe Dam project the customer is the National Electricity Corporation. The customer in the Heglig oil fields is the Greater Nile Petroleum Operation Company. Both of these customers involve the Sudan government. ABB has no operations or involvement in Darfur.

Overview of Peace Prospects

ABB believes there has been considerable progress over the past year in the North /South conflict in spite of setbacks. A Comprehensive Peace Agreement (CPA) was signed in January of 2005 ending a 21 year civil war. CPA splits oil revenues, government posts and jobs between the North and South. The new government was sworn in in September 2005 and was delayed by the death of John Garang. Considerable work remains to implement the CPA. In Darfur where ABB does not operate there are signs of progress amid continuing violence. Positive signals include a first round of peace talks in Abuja, Nigeria taking place in October, 2005. African Union and U.N. Peacekeepers on the ground and the International Criminal Court is investigating war crimes.

ABB is engaging in a Sudan stakeholder dialogue. ABB contends that Amnesty International Business Group recommends that companies doing business in sensitive countries should not withdraw. This could not be confirmed by staff's calls to Amnesty International. ABB is organizing a stakeholder forum in Khartoum in November to include the Sudanese government, non-governmental organizations (NGO's), the United Nations and the British Council. In addition, ABB says they are engaging the Sudanese government, the Ministry of Labor, Investors and the Business Leaders Initiative on Human Rights (BLIHR). ABB states that none of the stakeholders on the ground have called on ABB to halt its business activities or withdraw from Sudan.

Conclusion

ABB says there are signs of progress. They cite that courts are beginning to hold people accountable for genocide. In addition, within the next few months there will be a Human Rights Commission established as well as an International Court Prosecutor to report to the U.N. Further, ABB's case is that mere presence does not make them complicit in human rights abuses.

Follow-up

Staff requested additional detail on ABB's dialogue with NGO's such as "Save the Children," CARE, "Amnesty International" as well as their local independent sources that ABB contends support ABB's on-going presence in Sudan. ABB replied that these meetings were held between August 20-23 and October 1-4 in Khartoum with NGO's, United Nations officials, other companies and diplomats. ABB could provide details but stated that these conversations are very sensitive in nature and that they will keep us abreast of the progress of a stakeholder forum set to take place in the first quarter of 2006. Staff contacted Amnesty International and was not able to confirm such meetings or that Amnesty International supported ABB's ongoing presence in Sudan.



Memorandum

California Public Employees' Retirement System

Date: December 1, 2005

From: Mark Anson
Chief Investment Officer

Subject: November 21, 2005 Meeting with Alcatel – Sudan Activities
(The following summarizes remarks made by representatives of Alcatel.)

Attendees - Alcatel:

Serge Tchuruk, Chief Executive Officer

Attendees - CalPERS:

Mark Anson, Chief Investment Officer

Background

Alcatel is a global communications company. It develops and integrates technologies, applications and telecomm services around the world. It generates revenues from the fixed land line, mobile, and specialized communications (video, fiber optics, and cable) markets. It also provides broadband wireless services, video software applications and satellite telecommunications.

It operates in 130 countries and has a workforce of 56,000. Its 2004 revenues were 12.3 billion Euros—about \$14.8 billion.

Alcatel's Operations in the Sudan

Alcatel's business revenues from the Sudan are approximately 50 million euros or about \$60 million USD. This represents 0.4% of Alcatel's total revenues.

Alcatel employs 52 people in the Sudan, less than 0.1% of its total workforce.

Alcatel has contracts with Petrodar, BTCL, and Sudatel to provide hardware and labor to install the hardware for telecommunication facilities.

Sudatel is 26% owned by the Sudanese government, while Petrodar is jointly owned by PetroChina and the Malaysian national petroleum company. BTCL (British Telecom) is independent of the Sudanese Government.

Alcatel has not made an investment in the Sudan, it only sells hardware and provides employees to integrate the hardware for clients.

Alcatel does not have any business relationship with the Sudanese Government, although it does have a hardware contract with Sudatel, which is partly owned by the Sudanese Government.

Alcatel is not taxed on its hardware sales by Sudan, but is taxed on the services it provides to install the hardware. The tax rate is approximately 5%.

Alcatel has no plans to invest its capital in the Sudan to build plants or facilities. Its involvement is strictly due to providing hardware and services to install the hardware.

Alcatel's Ethics Policies

Alcatel has a 16 point Statement of Business Practices that provide explicit guidance for the ethical conduct of its employees. Of particular interest is Statement #11:

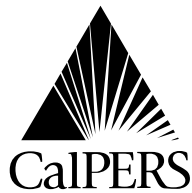
Alcatel will support and respect, with its sphere of influence, the protection of international human rights set out in the United Nations' Universal Declaration of Human Rights, the International Labor Organization's fundamental conventions and the Global Compact. In particular, the Company supports the effective elimination of all forms of compulsory labor and child labor as defined by the ILO. It will make this a criterion in the management of its suppliers and sub-contractors.

When asked whether their sphere of influence could extend to the Sudan, they agreed that it could. More concretely, Alcatel agreed to perform a formal review of its business operations in the Sudan through its Ethics Committee to see what more Alcatel can do.

Alcatel's Position

Alcatel does not do business directly with the Sudan Government, and believe that they do not have any influence with the Government. However, Alcatel believes that one way that it can help to bring the bloodshed of Sudan to light is through better communication both within the country and with the outside world.

Alcatel's business in the Sudan is a tiny fraction of their overall business. Nonetheless, they feel frustrated at not being able to do more in the Sudan. Yet, when asked whether they had been contacted by Amnesty International or other Human Rights organization, they could not answer definitively. Consequently, they agreed to perform a formal review through their Ethics Committee to see if there is a way to provide better assistance to stop the genocide in the country.



Memorandum

California Public Employees' Retirement System

Date: November 17, 2005

From: Dennis A. Johnson, CFA
Senior Portfolio Manager, Corporate Governance

Subject: November 17, 2005 Meeting with Royal Dutch Shell (RD) – Sudan Activities
(The following summarizes remarks made by representatives of RD.)

Royal Dutch Attendees: Jeroen van der Veer, Chief Executive Royal Dutch Shell
Honore Dainhl, Senior Regional Advisor Sub-Saharan Africa
David T. Lawrence, Executive Vice President Investor Relations

Attendees – CalPERS:

Dennis Johnson, Senior Portfolio Manager, Corporate Governance

Introduction

The meeting began with a brief overview of why the Sudan initiative is important. Reference was made to the fact that CalPERS is acting both as a member of a coalition of large U.S. institutional investors and on direction from its Investment Committee. It was also stated that the CalPERS Board will receive an update report on Sudan at the December Board meeting.

Sudan-Strategy Review

Mr. Honore Dainhl discussed Royal Dutch's (RD) strategic position and initiatives in Sudan. Sudan is statistically insignificant in the RD business portfolio. There are 130 employees in Sudan compared to approximately 12,000 in total in Africa. RD's primary business activity in Sudan is the operation of fuel service stations. Oil distributed through their service stations is imported through Port Sudan. There are 42 service stations in Sudan versus 3000 throughout Africa. RD's Sudan business does not produce a profit. There are no growth initiatives in place or being considered for Sudan at this time. If conditions were to materially improve, RD could become interested in investing in Sudan.

Royal Dutch has been selling its assets in Sudan. The refinery business was sold in 1992. The chemicals business was sold shortly thereafter. RD's Liquefied Natural Gas (LNG) business was sold in 1994. The aviation fuel business was recently sold to Petronas.

The question was raised to RD about the prospects of Sudan having the potential to produce oil at levels comparable to Nigeria over the next 5-10 years. RD indicated that their external sources on the subject are not providing information or data that would support that outlook.

Mr. van der Veer indicated that they do not own equity in Chinese energy companies doing business in Sudan. He also indicated that in the course of business, their country manager meets with Sudan's Minister of Energy. These meetings represent an opportunity to communicate RD's position on the importance of having and abiding by the right business principles. RD will only operate in those countries where it can function under its publicly stated business principles and guidelines.

The question was raised about selling the remaining assets in Sudan. RD indicated that they have not considered this. In addition, they pointed out that there are fifteen countries in Africa with an asset base smaller than Sudan. Leaving Sudan could lead to the suggestion of RD getting out of most of Africa.

Humanitarian Activity

Mr. van der Veer stated the importance of understanding how tough life is for people living in Sudan. He suggested that it could be devastating to the people of Sudan if RD were to leave. However, he does recognize the importance of balancing the interest of RD constituencies which obviously include shareowners.

Their decision to sell the aviation fuel business was an example of their sensitivity to humanitarian efforts. When RD realized their only customer for aviation fuel had become the Sudan military, the business was sold to Petronas.

A UK Commission visited Sudan and RD was noted as an example of an entity with good human rights policies and practices. RD provided human rights training to a group meeting in London from Sudan. RD is not directly or indirectly engaging the political leadership in Sudan to address conditions there.

Closing

Mr. Honore Dainhl indicated that he is from Africa and stated the problem with companies not understanding that they do not improve conditions by leaving a country. He indicated that there are many examples of life not being the same when companies withdraw from a country. If there is a new owner of the assets, they are inferior in every way from the point of view of the local people. If the assets are withdrawn or abandoned, local people suffer even more. Mr. Dainhl stressed the importance of Westerners distinguishing the difference between the political leadership and the people of Sudan when considering strategies to effect change. In his opinion, the worst is behind the people of Sudan. He notes the Peace Agreement, the Government reconciliation and the formation of the National Commission whereby the President of North Sudan and leader of South Sudan serve as President and Vice President, respectively. Mr. Dainhl also stated that he does not have any visibility into conditions getting better in Sudan.

Mr. van der Veer stated that he concurred with Mr. Dainhl. Divestment is a western way of addressing problems with which he philosophically disagrees. He thinks about the personal implications of divestment. Mr. van der Veer also stated that there are no assurances that business principles and human rights will improve in Sudan if RD completely leaves the country.

He closed by stating that RD will continue to emphasize the need for the existence of good business principles in Sudan. He wants RD to promote the principles of sustainable development in Sudan. The existence and reinforcement of assurance procedures will continue to govern how RD personnel conduct business in Sudan.



Memorandum

California Public Employees' Retirement System

Date: December 5, 2005

From: Dennis A. Johnson
Senior Portfolio Manager-Corporate Governance

Subject: December 5, 2005 Conference Call with Siemens – Sudan Activities

Investor Attendees:

Dennis Johnson – Senior Portfolio Manager, CalPERS
Julie Gresham – Assistant Comptroller, New York State
Comptroller's Office
Meredith Miller – Assistant Treasurer of Policy, Connecticut
Treasurer's Office
Lee Gresham – Vermont State Treasurer's Office
Phillip Larrieu – Associate Investment Officer, Corporate
Governance, CalSTRS

Siemens Attendees:

Heinz-Joachim Neuburger, Chief Financial Officer
Marcus Desimoni – Treasurer
Christine Schmoe – Investor Relations Manager

A conference call was held today between Heinz-Joachim Neuburger, Chief Financial Officer for Siemens and representatives of five public funds. Public funds represented on the call included CalPERS, New York State Comptroller's Office, State Treasurer of Vermont, State of Illinois, and Connecticut Treasurer's Office.

Siemens' Business in Sudan

Mr. Neuburger stated that Siemens' business in Sudan is insignificant relative to the entire business portfolio. Annual sales from Sudan are approximately 28 million euros compared with 75 billion euros in annual revenues for the total company. Siemens' business is conducted from a representative office in Khartoum. There are three permanent full time employees that manage the Sudan representative office. This group of individuals has been with the company since 2003. When necessary, management will hire temporary workers. The maximum number of workers Siemens has utilized for project employment is approximately 40. Siemens has control systems in place to insure employee safety and manage the potential risk of employees engaging in inhumane activities. These controls include background checks and having close contact with employees on a weekly basis.

Siemens has two lines of business in Sudan. They are the telecommunications equipment and medical technology businesses. The medical technology business includes the sale of products such as ultrasound devices. Medical equipment is sold to hospital and health organizations in Sudan. Mr. Neuburger indicated that Siemens will provide a client list in order to see who they are directly doing business with in this business segment. Given the fragile nature of the Sudan economy, it is possible that these clients will include municipal/government related facilities.

The telecommunications equipment business involves the sale of product to Vodafone and Sudan Telecom. Sudan Telecom is a government controlled entity. As with the medical technology business, Mr. Neuburger has offered to make a client list available to show who Siemens is directly doing business with in this business segment.

Siemens has limited capital invested in Sudan given that it operates out of a representative office with three permanent employees. Approximately \$130,000 in business taxes are paid annually to the Sudan government.

Humanitarian Efforts

Mr. Neuburger indicated that during his thirty years with Siemens, he has worked in Sudan. The experience of living and working in Sudan allows him to be highly sensitive to employees and their families in Sudan. In his opinion, being active in Sudan may have a positive impact on conditions there. Leaving Sudan may cause more damage to the country, Siemens employees and their families.

Siemens has a global corporate policy of not getting politically involved in countries where they conduct business. Therefore, Siemens does not have a Sudan specific policy. It was suggested that they are engaged in "back-channel" discussions with various parties trying to positively effect change in Sudan. It was also suggested that the former Soviet Union and China are not being supportive of efforts to solve the problems in Sudan.

Financial Disclosure

Mr. Neuburger started his closing remarks by stating that Siemens is cooperating with a Securities & Exchange Commission inquiry about its business in Sudan and other countries. He stated that Siemens is cooperating fully, but that the level of business activity with each of these inquiries is below the materiality threshold required for public disclosure. Nonetheless, Siemens is cooperating fully and providing disclosure on the subject. The Siemens 20F (equivalent of 10K and Annual Report, required of non-US companies with stocks trading in the United States) will contain information related to the SEC inquiry, and Siemens' business activities in Sudan and other countries that are part of the inquiry. The 20F should be available within the week.



Memorandum

California Public Employees' Retirement System

Date: November 30, 2005

From: Christy Wood
Senior Investment Officer, Global Equity

Subject: November 23, 2005 Meeting with Total – Sudan Activities
(The following summarizes remarks made by representatives of Total.)

Attendees - Total:

Robert Castaigne, Chief Financial Officer
Jean-Francois Lassalle, Vice President, Exploration and
Production
Jerome Schmitt, Vice President, Investor Relations
Eve Gautier-Roux, Investor Relations

Attendees - CalPERS:

Christy Wood, Senior Investment Officer, Global Equity

Introduction

Total conducted exploration activities in Sudan in 1983 and 1984. When civil war broke out they suspended all exploration in 1985. Presently, they have a 32.5% interest in Block B in the southern portion of Sudan but there is no activity or business being conducted there at this time. This area is very large (about the size of Greece) and is basically swamp land that has not been developed. When Total saw a peace agreement evolving in 2003 they took steps to prepare to return to exploration activities in Block B. Their partners are Marathon Oil (32.5%), Kufpec (25%) and Sudapet (10%) The Sudan National Oil Company. Total's rights to engage in exploration in Block B are currently disputed by a United Kingdom company White Nile which recently announced it had been awarded a license on the same area. None of Total's current revenues come from Sudan.

Current Plans

Total says that the United Nations is currently "de-mining" the access roads to Block B and that by March 2006 they plan to resume seismic exploration. Drilling in Block B would potentially begin in 2007. They have one office in Khartoum with one representative. They are currently also trying to rehabilitate the base camp in Bor that

has been dormant for 20 years. Any activities would include local people and would be preceded by experts and physicians to assess local impact.

Total's view of their planned activities in Sudan

Total prides itself in its ethics and sustainable development practices. They cite two organizations that support their planned activities. One is "ECOS, "the" European Coalition on Oil in Sudan" which is a European group of non governmental organizations (NGO's) and "CDA" which is the "Collaborative for Development Action" a conflict resolution entity which supports ethical development of underdeveloped nations. Staff's calls to these entities were not successful.

Total states that they will not have revenues attributable to Sudan for 6 years.

Total justifies their planned activity in Sudan in making the following points:

- 1) The United Nations is currently 'de-mining' the roads in Block B to provide for exploration and eventual production – they say everyone is working closely with the U.N.
- 2) Total has a long history of ethical and sustainable development of underdeveloped nations.
- 3) No production would be carried out without an impact study.
- 4) They have a positive history of not pulling out of South Africa in the 80's and were glad in the 90's they stayed. They believe they were a positive force throughout this period.
- 5) Any revenues from the Block B eventual production that go to the Sudan government (via Sudapet) would be subject to the "EITI" or "Extractive Industry Transparency Initiative" which controls where the revenues are directed. This would ensure they not be misdirected or misused.
- 6) Total doesn't operate in the Darfur region where the atrocities are predominantly occurring.

June 3, 2005

E. Anthony Wayne, Interim Under Secretary
for Economic, Business and
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U.S. Department of State
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Stuart A. Levy, Under Secretary
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U.S. Department of the Treasury
1500 Pennsylvania Ave., NW
Washington, D.C. 20220

Peter Lichtenbaum, Acting Under Secretary
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Assistant Secretary for
Export Administration
Bureau of Industry Security
U.S. Department of Commerce
14th Street and Constitution Ave, NW
Washington, D.C. 20230

Alan L. Beller, Director
Division of Corporate Finance
U.S. Securities and Exchange
Commission
450 Fifth Street
Washington, D.C. 20549

Dear Gentlemen:

In the interests of public pension funds in the United States, and on behalf of those listed below, we are writing to request your assistance in identifying any publicly traded companies that are of concern to the United States government for doing business with, or having business ties to, entities that support terrorism or threaten U.S. humanitarian goals. As large institutional investors, we have investments in nearly every major public corporation and global financial marketplace. We need your assistance in identifying those corporations that are supporting terrorism so that we may ensure that we are not inadvertently acting in conflict with the foreign policy and humanitarian goals of the United States, thereby subjecting our members to excessive investment risk. Some of us have made this request previously and we reiterate it here, as we continue to face increasingly complex investment decisions.

The situation in Sudan is illustrative of the current landscape. Sudan is not only a federally designated terrorist sponsoring country, but is also embroiled in domestic conflicts in which the Sudanese government has engaged in activities that the U.S. government has identified as "genocide." In recent months, it has been suggested that companies that do business in Sudan may thereby be furthering or condoning the egregious human rights violations currently occurring in that country. Federal law imposes a broad trade embargo on Sudan, but not all business is prohibited. In addition, several state legislatures are considering measures that, in various ways, restrict investment in companies that do business or have financial ties with Sudan. We need adequate information to determine whether companies in which our public pension funds are invested are doing business in Sudan so that we, as fiduciaries, can make informed investment decisions.

It is our understanding that private entities have attempted to identify companies doing business in terrorist sponsoring countries, including Sudan. We believe, however, that the U.S. government is the only credible and centralized authority to identify, monitor, and report domestic and international companies that are operating in such countries and thereby may be acting contrary to U.S. foreign policy and humanitarian objectives.

Existing laws require your agencies to identify, monitor and sanction companies with business or financial ties to terrorist sponsoring countries, including Sudan. For example, in the case of the Securities and Exchange Commission, Congress has specifically mandated that it establish a process to identify companies operating in terrorist sponsoring countries and ensure that their activities and operations are disclosed to investors.

At this time, no comprehensive list or report of such companies has been created. Creation of such a list is a necessary first step in identifying companies whose activities may be contrary to U.S. foreign policy and humanitarian interests. Accordingly, we respectfully request that your agency, working in conjunction with other appropriate federal agencies and departments, publicly disclose the identity of companies that, by virtue of their business or business ties in terrorist sponsoring countries, are acting contrary to U.S. foreign policy and humanitarian interests, and that you report other information on such companies that will enhance investors' capability to make prudent investment decisions.

This is a matter of extreme importance to the Trustees of the undersigned pension funds. We hope that you will consider this matter with the same level of import that we have.

Thank you for your consideration.

Gail Stone

Executive Director
Arkansas Public Employees Retirement System

David Malone

Executive Director
Arkansas Teacher Retirement System

Fred Buenrostro

Chief Executive Officer
California Public Employees' Retirement System

Jack Ehnes

Chief Executive Officer
California State Teachers' Retirement System

Meredith Williams

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Colorado Public Employees' Retirement Association

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Illinois Municipal Retirement Fund

Kevin Huber

Chief Financial Officer
Chicago Teachers' Pension Fund

Edward M. Smith, Chairman

Illinois State Board of Investment

Jon Bauman

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Illinois Teachers' Retirement System

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Eric Stanchfield
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Wisconsin Department of Employee Trust Funds

David Mills
Executive Director
State of Wisconsin Investment Board

Thomas Mann
Director
Wyoming Retirement System

cc: Condoleezza Rice
Secretary of State
U.S. Department of State

John W. Snow, Secretary
U.S. Department of the Treasury

Carlos M. Gutierrez
Secretary of Commerce
Office of the Secretary

William H. Donaldson, Chairman
U.S. Securities and Exchange Commission

Cecelia D. Blye, Director
Office of Global Security Risk
U.S. Securities and Exchange Commission

Charles Fishkin, Director
Office of Risk Assessment
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Robert W. Werner, Director
Office of Foreign Assets Control